

The IR Journal

New AR 11-7

Currently Being Staffed



Volume 3 Issue 1

December 1997

New AR 11-7 Being Staffed

A revised AR 11-7, Internal Review, is currently being staffed throughout the Army Staff and MACOM HQs. Concurrences and recommended changes are due back to SAFM-FOI by 19 December 1997. Suggested changes will then be incorporated and any nonconcurrences resolved. We believe that these actions should be completed by the end of the 2nd quarter of FY98. Our goal is to have the new regulation completed and at the printers by the IR Symposium in April.

The new regulation incorporates all the policies developed during our reengineering efforts. These date back to 1994. The regulation also focuses on meeting customer needs and expectations and formally establishes the IR Awards Program.

"We don't like their sound, and guitar music is on the way out."

--Decca Recording Co. rejecting the Beatles, 1962.

IG, DoD Reviews IR

The Inspector General, Department of Defense, has begun survey work in connection with their review of the Army's Internal Review Program.



On 6 October 1997, the IG, DoD briefed their approach to **Mr. Neil Ginnetti**, Principal Deputy Assistance Secretary of the Army (Financial Management & Comptroller). Also in attendance were **Mr. Ernest Gregory**, Deputy Assistance Secretary of the Army (Financial Operations); **Mr. Richard Chambers**, Director, Financial Reporting and Internal Review; and **Mr. Bob Barnhart**, Program Manager for Internal Review.

Their initial work will constitute a "Survey Phase" and will last until at least December. During this period, they will evaluate operations at one MACOM HQ (HQ AMC), and 5 or 6 installation IR Offices (to be determined from AMC, FORSCOM, TRADOC and USAREUR). At the conclusion of the "Survey Phase," IG DoD will determine the additional work they want to perform. The only MACOMs that are being excluded from the scope of this evaluation are the Corps of Engineers and National Guard. In both cases, IG DoD has performed a recent evaluation of IR.

The overall objectives of the evaluation are to determine: (1) if resources are effectively utilized, and (2) staffing levels are commensurate with other DoD components. However, IG, DoD offered considerable additional information on areas they will concentrate on during their visit(s). The five areas include:

1. The annual planning process - the extent to which input is obtained from management, derived from risk type analysis, and avoids duplication of other audit/inspection activity.
2. The liaison and follow-up functions.
3. "Performance Review" of audit work - to include quality control, working papers, and the audit report.
4. Consulting Services - extent to which IR is meeting agreements with management, qualifying reports when audit standards are not met, and generating timely information.
5. Monetary benefits reported in connection with audit work.

As for criteria, the IG will evaluate our work in terms of compliance with the DoD Audit Manual, Army Regulations, and policy guidance issued by ASA(FM&C). Mr. Ginnetti asked that the IG,DoD also include an evaluation of whether IR's reengineering efforts are appropriate and compliant with the auditing philosophy contained in the National Performance Review.

United Nations Auditors to Adopt Army IR Policies

Mr. Richard Chambers, Director, Financial Reporting and Internal Review, SAFM-FOI, recently received a note from the United Nations Internal Auditors. In the note, the official stated that he'd been asked to contact Mr. Chambers ". . . concerning our efforts to finalize the UN's internal management consulting protocol. We have used the guidelines you prepared for the US Army's consulting and advisory services as a valuable input for establishing our own protocol. At this stage, we are attempting to standardize the requisite documentation for each consulting engagement. We wanted to know if you could help us out by sending a copy of the standard form used by your office for the memorandum for record or engagement agreement established with the Command."

The UN auditors join a growing list of corporate and governmental audit organizations embracing Army IR's reengineered products and services. Thus far, the list includes: New York State, several New York City agencies; Air Force Audit Agency, a couple of Federal IG organizations, and various city and municipal agencies across the US.

True or False?

All of the following are national holidays. True or false?

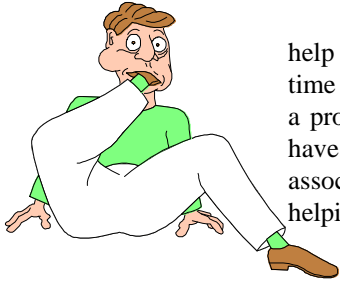
New Year's Day
 Martin Luther King's Birthday
 Independence Day
 Veterans' Day
 Thanksgiving Day
 Christmas Day

(Answer on Page 10)



Happy Holidays from our SAFM-FO Family
~~Your Last Report Was Not Good!~~

I accomplished one of my goals, I got you to begin reading this article. The only problem is that now you're more than likely ticked off and looking for a misspelled word or incorrect punctuation so that you can discredit the article and it's author.



What's this got to do with internal auditing? Plenty! First let me say that I help put together the Semi Annual Synopsis of Significant Internal Review Reports. Every time I read some of the findings submitted my skin crawls and my blood boils. Why? As a program, we've come so far over the past five years. All of our re-engineering efforts have focused on our customer's needs and minimizing the "Black Hat" image often associated with auditors. We want to be an integral part of the management team - helping commanders and staff officials be successful.

As a community, we've made great strides. In several ways, we've even become a standard bearer for the internal auditing profession. But we still have a number of practitioners in our ranks who must take pride in presenting audit results in a negative fashion. Don't get me wrong, sometimes there's just no other way to present bad news. **BUT**, shouldn't professional auditors be conscious of the emotions they evoke when the report is a litany of negative statements?

Example: *As written* - "Items purchased with the IMPAC card were not properly recorded on property book records."

Improved: Better control over property book recording of items purchased with the IMPAC card is necessary to ensure proper accountability.

Example: *As written:* "Cards were not destroyed when employees were no longer employed."

Improved: Improvements were needed to ensure that employees' cards were destroyed when employment ended.

I'm sure you get the idea. As a professional who deals in facts, there's one fact that you must come to grips with. That is - **NOBODY LIKES TO BE EMBARRASSED, ESPECIALLY IN FRONT OF THE BOSS!**

Moral of this story - Read what you write as if you were the subject of the findings. Ask yourself, could I present this information in a less threatening manner? Am I surfacing some emotions that I don't need to? If your answer is yes to either question; a rewrite is probably in order.

New IR Customer Survey

The Performance Measures Process Action Team developed and administered an Internal Review Customer Service Questionnaire in early FY97. Results of the initial customer survey indicated a number of areas where local IR offices could improve. Further, initial results will be used as a benchmark for future surveys.

In November, SAFM-FOI sent the same questionnaire to 95 IR customers. The 95 represented all Army, National Guard, and Army Reserve commands who were not selected to participate in the initial survey. Sixty-one went to active component commanders, twenty-one to National Guard U.S. Property and Fiscal Officers, and thirteen went to Army Reserve commanders.

Preliminary results, with 44% of the questionnaires returned, are indicated in the chart below.

We will issue a full report in January 1998, when all the results are in. We also plan to discuss the results at the Annual IR Training Symposium.

Internal Review Customer Survey

Preliminary Results*

Question	FY97 Mean	FY98 Mean	Difference
IR Products and services -			
5. are useful to me and my staff.	4.33	4.58	0.25
6. are received in a timely manner.	4.17	4.12	(0.05)
7. are of high quality.	4.31	4.38	0.07
8. meet my and the organization's needs.	4.21	4.30	0.09
9. result in more efficient and economical operations.	4.00	4.07	0.07
10. help promote/improve local stewardship.	4.07	4.29	0.22
The IR office -			
11. provides a number of services to this command.	4.19	4.23	0.04
12. knows my needs.	3.90	4.15	0.25
13. is staffed with highly skilled audit professionals.	4.35	4.35	0.00
14. provides me a valuable management control tool.	4.24	4.48	0.24
15. is routinely sought for advice and assistance.	3.93	4.05	0.12
Internal Review auditors -			
16. are perceived as part of my management team.	3.92	4.20	0.28
17. interact effectively with management.	4.15	4.33	0.18
18. display a positive attitude.	4.43	4.49	0.06
19. perform valuable liaison services with external audit organizations.	4.13	4.49	0.36
20. present their results objectively and fairly.	4.29	4.53	0.24
In the future, I will -			
21. request additional IR products and services.	4.19	4.43	0.24
22. promote the use of IR products and services.	4.20	4.29	0.09
23. It is important to me that IR is staffed with professional auditors and comply with Government Auditing Standards.	4.61	4.78	0.17
Overall Score:	4.19	4.34	0.15

* As of 3 December 1997, with 44% return.



Travel Charge Card Program

By Bill Harris, Assistant Director, Mgmt Controls & Travel Card Programs



The Travel Charge Card Program has been getting increased attention and command emphasis lately, but the Army still has a substantial problem with card misuse and cardholder delinquency. Internal Review auditors can help to ensure that these problems are minimized at their command or installation by focusing on the basic requirements of program administration. This office will develop and issue an audit guide for the Travel Charge Card Program that will focus on a range of required actions and issues, such as:

- Does the program have command emphasis and support? How is this support documented? Is the command/activity's senior leadership kept informed on program performance?
- Has the command/activity issued local guidance on the program?
- Does the command/activity take advantage of available options for tailoring their program (i.e., lowering the monthly ATM cash limit, restricting their cardholders' ability to temporarily increase this ATM limit, lowering the monthly limit for "other retail" charges (i.e., those charges unrelated to lodging, meals, rental cars, etc.)?
- Have Program Coordinators been trained? Do they periodically provide cardholder training to ensure that all cardholders understand the rules and their obligations?
- Do Program Coordinators use the monthly reports from American Express to identify potential cases of card misuse (i.e., excessive ATM cash withdrawals, charges unrelated to TDY needs)?
- Do Program Coordinators systematically contact cardholders and/or their immediate supervisors about card misuse and delinquency?
- Do supervisors take action when informed of these problems?

We will get this audit guide out prior to the IR Symposium in St. Louis and will offer workshops on this subject at the Symposium.

The IR Vision

To be the premier source of objective, reliable and timely information for Army decision-makers.

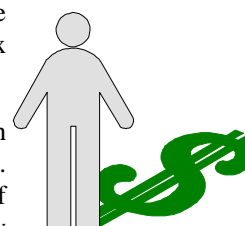
"The concept is interesting and well-formed, but in order to earn better than a 'C,' the idea must be feasible." --A Yale University management professor in response to Fred Smith's paper proposing reliable overnight delivery service. (Smith went on to found Federal Express Corp.)

New Tax Law Brings Relief to Many

by James E Garvey, CPA, CIA, Ohio NG IR

New tax provisions in the Taxpayer Relief Act of 1997 and the Balanced Budget Act of 1997 are beneficial to families, students, homeowners, and investors. The provisions, most of which go into effect in tax year 1998, include:

- **Exclusion of Gain on the Sale of a Personal Residence.** Taxpayers can exclude up to \$250,000 of gain (\$500,000 for married couples filing a joint return) on the sale of a principal residence occurring after May 6, 1997. Unlike the one-time exclusion provided under prior law, the exclusion is allowed each time that a taxpayer sells a principal residence generally after a holding period of two years.
- **Capital Gains Tax Rates Lowered.** The previous maximum tax rate on capital gains has been lowered from 28% to 20% for sales after May 6, 1997 if the property was held for more than 18 months at the time of sale. If your maximum tax bracket is 15% your tax for capital gains is 10% on property held for 18 months.
- **Child Tax Credit.** This new tax provision gives a credit to families with children of up to \$400 per child in 1998. The credit increases up to \$500 in 1999. A phase out of the credit begins with modified adjusted gross income in excess of \$110,000 for taxpayers filing jointly. Generally, the credit is limited to tax liability net of credits, other than the Earned Income Credit. However, families with three or more children may be entitled to a credit in excess of tax liability.
- **HOPE Scholarship Credit.** This credit allows taxpayers a credit of up to \$1,500 for expenses paid on behalf of the taxpayer, the taxpayer's spouse, or dependent for the first two years of post-secondary education at an eligible institution.
- **Lifetime Learning Credit.** This credit allows taxpayers to claim a credit of up to 20 % (up to \$5,000) for expenses incurred during the tax year for qualifying tuition and fees for eligible students for post-secondary education, including any course of instruction to acquire or improve job skills.
- **Education Individual Retirement Account.** This account gets special tax treatment by allowing the taxpayers to make nondeductible contributions into the account for the benefit of a designated beneficiary and defer tax on the earnings until amounts are distributed. These amounts remain non-taxable if the amounts of the distributions do not exceed the qualified higher education expenses of the eligible student for the year. Annual contributions are limited to \$500 per beneficiary under the age of 18. There is a 10% penalty if amounts are not used for education.
- **Deduction for Interest on Education Loans.** Taxpayers will be able to deduct up to \$1,000 of interest on qualified educational loans in 1998. This deduction is "above-the-line." The maximum deduction increases each year until it reaches \$2,500 in the year 2001.
- **Roth Individual Retirement Accounts (IRA).** This new IRA allows for nondeductible contributions of up to \$2,000 (net of your deductible IRA contributions) by taxpayers. The key feature being that earnings on the account are taxable only if and when there is a distribution which is not a qualified distribution. A qualified distribution includes a distribution: made after the taxpayer attains the age of 59 1/2; made because the taxpayer is disabled; used by a first-time home buyer to acquire a principal residence; or made to a beneficiary after the taxpayer's death. There is no prohibition on making contributions after attaining the age of 70 1/2.

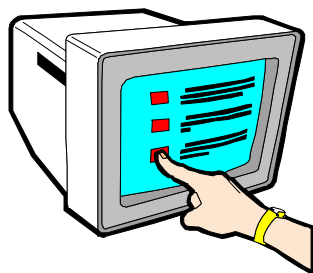


These provisions will provide some tax relief for most taxpayers. It is advised that you consult with your tax advisor on specific provisions because not only is it one of the most generous tax acts of recent years, it is considered the most complicated. So much for simplification of the tax code.

"There is no reason anyone would want a computer in their home."

--Ken Olson, president, chairman and founder of Digital Equipment Corp., 1977

CIA Update



Some changes in the CIA Program over the last year or so have taken place. Just in case you didn't know--

- ? Exam Format - The format of Part I is now 85% objective and 15% essay. This part now contains 70 objective questions, worth 1.214 points each, and one essay question worth 15 points. Also, effective with the November 1998, exam, all four parts will be all objective (80 multiple-choice questions on each part).
- ? Candidates are no longer required to take two parts at their first sitting of the CIA exam; they may take 1, 2, 3, or all 4.
- ? A candidate's eligibility will expire only if the candidate does not take a single exam part within any two-year period or four exam cycles.
- ? The CIA exam became non-disclosed effective with the November 1997, CIA exam. Non-disclosure will improve the overall quality of the exam and facilitate translation into various languages.
- ? As a result of exam non-disclosure, the grade analysis program ceased to exist after the May 1997 exam. However, all unsuccessful candidates will be provided a brief breakdown of their grade results.
- ? While the Institute of Internal Auditors, Inc. (IIA) will no longer publish Questions and Solutions for each exam, they will release representative questions as the exam goes through minor changes.

Computer-based testing will become a reality in a shorter time frame as a result of a non-disclosed exam. Non-disclosure will enable IIA to build a bank of reusable, quality, questions that will be required for computer-based testing. The Year 2000 is the target for computer-based testing.

The Training Corner

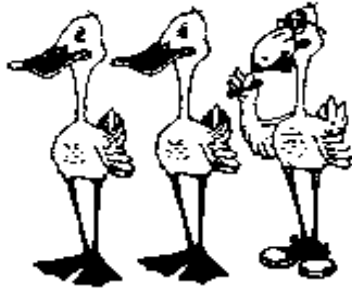
By Ms. Michelle Doyle

The Senior Auditor School originally scheduled for 14-18 September was moved to 17-21 August 1998. Quotas assigned for the course are as follows:

AMC	2
COE	1
NGB	1
TRADOC	1
USARC	4
USMA	2

"After you've heard two eyewitness accounts of an auto accident, it makes you wonder about history."

-Bits & Pieces



Web Feat of the Quarter

Have you been getting involved with Activity Based Costing (ABC)? Why not? Need more information on it. Well if you do, please fire your search engine to [<http://199.114.35.11>]. You'll find all sorts of information. The site covers Army Managerial Costing and invites you to study What's New, The Army's Steering Committee's activities; a Calendar of Scheduled Events; Hotlinks; and even Feedback. A good place to get started with ABC or pick up on what's new.

Internal Auditing World Wide Web

<http://www.bitwise.net/iawww/>

Here's a site for sore auditor eyes. It's dedicated to the internal auditing profession. Some info from it's Home Page: Business *Use:* Provides information to internal auditing professionals or those in need of internal auditing services.

Content Description: The Internal Auditing World Wide Web is a production prototype demonstration project aiming to act as a warehouse of information and knowledge pertaining to the internal auditing profession and functions across all associations, industries, and countries. The site provides information on professional practitioners, associations, conferences, courses, and seminars and an indexed collection of white papers on specific internal auditing subjects. Links to news sources are also provided.

Did you Know?

✱ In 1985, IR Army-wide, there were 34 CIAs, 65 CPAs, 3 CISAs, and 160 with advanced degrees!

(Source: Mr. Frank J. "Just call me Ripley" Bono, USARC)

IR Roundup



Awards -

- **Messrs. Dixon, Austin and O'Hare**, US Army Signal Command, were officially commended and received on-the-spot cash awards for contributions to the Contracts and Supply Deobligation Task Force.

Mr. Rodolfo Moreno, IR Office, HQ, U.S. Army Japan/9th Theater Army Area Command received the Commander's Award for Civilian Service on 30 September 1997.

On 29 October 1997, **Ms. Yakari Muramatsu** was awarded the Achievement Medal for Civilian Service for her superior work as the Administrative Specialist, Internal Review Office, HQ, U.S. Army Japan/9th Theater Army Area Command. Her commitment to excellence contributed significantly to the successful accomplishment of the IR mission.

Promotions –

- Some hard-charging National Guard IR auditors recently received promotions to GS-12. Congratulations to:



Ms. Darlene Mayle-West Virginia

Mr. Carl Swain - West Virginia

Mr. Tim Gariboldi - Vermont

Mr. Mike Keeler - Michigan

Mr. Dave Milligan - Michigan

- **Mr. Frank Hayes**, USARC IR, was recently promoted to GS-13 when he assumed his new position with the USARC Internal Review Office.

Hail -

- A very belated "Welcome" to **Young Ho Jun** who joined the GA Guard's IR office last December.
- More recently, **Tommy Davis** joined the GA Guard's IR office. He began on 1 September.
- The USARC IR Office wants to welcome **Mr. Frank Hayes**. Frank was recently promoted to GS-13 and assumed the duties of Team Leader for Liaison, Program Management, and Management Control Process. Frank was the IR Chief at the COE's Huntington Engineer District.

Farewell –

- We were sorry to hear that **Mr. Barney Zeavin**, former auditor at ISC, passed away in Sep 97. Our condolences go out to his family and friends.
- USARC IR wants to say good-bye to an outstanding officer, **CPT Deborah Richardson**. On 19 Jan 98, Debby will transfer to the newly-formed USARC Retention Office. She has been working in the USARC IR

Office since Jun 96. Prior to that she was the full-time auditor at the now-deactivated 120th ARCOM in Fort Jackson, SC. The USAR, and the Army IR Program will sincerely miss her.

True or False?

(Answer from Page 2)

False

"'National holiday' is a widespread phrase, but there aren't any, not even Independence Day. The president and Congress can legally designate holidays only for federal employees and the District of Columbia. It's up to each state to determine whether or not it wants to observe a given holiday. There are, as a matter of fact, very few 'legal holidays' which are actually observed on the same date by every state in the union."

The Dictionary of Misinformation, Tom Burnam, 1975

"People ask me where I get my news. I get it from people who have promised other people they can keep a secret."

- Walter Winchell

What is ISO 9000?

International Standards for Quality Assurance

ISO 9000 is a set of five universal standards for a Quality Assurance system that is accepted around the world. Currently 90 countries have adopted ISO 9000 as national standards. When you purchase a product or service from a company that is registered to the appropriate ISO 9000 standard, you have important assurances that the quality of what you receive will be as you expect.

ISO 9000 standards are also being adopted by Federal agencies to improve services. Find out more about this international quality initiative. Search "ISO 9000" on your Internet search engine.

Happy New Year!!!

MANAGEMENT CONTROL CORNER

By Mike Petty, Program Manager for Management Control, SAFM-FOM



Secretary of the Army's FY 1997 Annual Statement of Assurance on Management Controls

The Federal Managers' Financial Integrity Act requires Executive Agencies to establish effective management controls and each year provide an assessment of these controls and report any material weaknesses. The Army's FY 1997 statement is a qualified statement of assurance. This means that management controls provide reasonable assurance with the exception of the material weaknesses identified in the report.

In past years, we have walked away from briefing the Secretary with a signed annual statement. However, this year we broke that tradition, in large part because of the nature of several Army-level issues we were including in the statement. By addressing such issues as sexual harassment/abuse and the Year 2000 computer problem, Army leadership continues to promote the philosophy of full disclosure of our management control problems. I want to commend those Management Control Administrators and Internal Review personnel that had a hand in working on this year's Army FY 1997 statement. Their work enabled the leadership to make some tough decisions.

This year the MACOMs and HQDA staff agencies reported 139 weaknesses in their feeder statements. Of these 139 weaknesses, 54 are new this year (up from 42 new weaknesses reported last year). From these results, it's clear to us that more MACOMs and HQDA staff agencies are actively using the management control process and their annual statement as a vehicle to identify and fix management control problems. There are 19 material weaknesses reported in the Army's FY 1997 Statement. This includes 7 that were closed and 12 that are still uncorrected.

Following completion of the FY 1994 annual statement process, we analyzed the sources originating material weaknesses that were reported to us. We found that 42% (58) of the weaknesses were found by sources internal to the commands and activities and 58% (81) were found by external sources (USAAA, DODIG or GAO). This was a trend that we intended to turn around as part of the restructured management control process. Based on results from FY 1997, these efforts are starting to pay off. For FY 1997, 68% (95) of the weaknesses were reported by internal sources, and 32% (44) were reported from external sources. In many cases, commands and activities are looking critically at their operations and reporting weaknesses in their management controls.

Assessment of Management Control Efforts

In the next few weeks we will convene a joint team (OASA (FM&C), USAAA and DAIG) to conduct the annual assessment of MACOM and HQDA staff management control efforts. Like last year, we will be assessing your efforts in leadership, training, execution, reporting of material weaknesses. For those of you that were looked at by USAAA, we will factor in the results of their review. We plan to use the results of this assessment to recognize those MACOMs and HQDA staff agencies for their management control efforts. As a result of last year's assessment, we recognized 10 MACOMs and HQDA staff activities for their exceptional efforts.



Management Control Process Homepage

In an effort to improve our ability to provide current management control guidance and information to the field, we have revised our homepage on the World Wide Web. Our address is <http://www.asafm.army.mil/mc/mc.htm>. We've designed it so that you can access the most current information on the Army's management control process. Take a look and please let us know what you think.

Management Control Administrators (MCA) Course

We've conducted six sessions of this course since its development last year. The feedback I've received so far has been outstanding. We will establish the course schedule for the remainder of FY 1998 and 1st QTR FY 1999 shortly. This two-day course is designed to walk the MCA step-by-step through their responsibilities. Look for the new course schedule and application details on our web-site.

PUZZLES WE'VE SEEN

Decipher the hidden meaning in this set of words -

TILL IME



Answer to September's Puzzle -

MAID

Rationale: All the words can be prefixed with the word BAR to form new words.

The Next Edition of The IR Journal

Our next edition of *The IR Journal* will be published during March 1998. Articles and information for the March edition should be received on or before 15 February 1998. Input should be forwarded via e-mail whenever possible.



The IR Journal is an unofficial newsletter for the Army Internal Review community published by the Office of the Deputy Assistant Secretary of the Army (Financial Operations). Its objective is to keep readers informed of issues that may affect or have affected the Army's Internal Review Program, the internal audit profession or auditing in the Federal government. *The IR Journal* will not be used to announce new or revised Army policy. It will however, often discuss new or changed policies subsequent to official announcement.

The editorial staff would like to hear your comments or ideas on improving *The IR Journal*. We would also ask you to submit articles, questions, good news, lessons learned, innovative audit techniques employed, recommendations for training, or letters to the editor.

We ask DA Staff and MACOM Internal Review offices to provide us with information on promotions, awards, new assignments, births, marriages, etc. This is **your** publication, so please help us serve you better.

Please feel free to contact our editorial staff, **Bob Barnhart** and **Michelle Doyle**, at any time. They can be reached at DSN 225-2909, COMM (703) 695-2909/7693; FAX - DSN 223-1028, COMM (703) 693-1028; or e-mail BARNHRW@hqda.army.mil or DOYLEM@hqda.army.mil. Comments or questions pertaining to the Management Control Page can be directed to **Mike Petty** at DSN: 225-3225; COMM (703) 695-3225; or e-mail PETTYTM@hqda.army.mil. Mike's FAX number is the same as shown above. This "memo edition" of *The IR Journal* is published to ensure transmission via e-mail to local Internal Review Offices is accomplished without difficulty. The normal edition of *The IR Journal* is available and downloadable from the Internal Review Homepage at <http://www.asafm.army.mil> - (click on Internal Review).